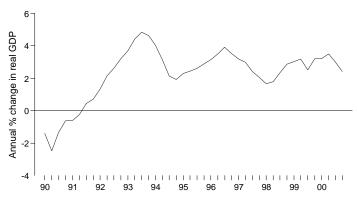
Weekly Economics Briefing

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Sharp slowdown in growth may herald rate cut

UK GROWTH SLOWS DOWN - BACK TOWARDS TREND



Long Term Average Growth

In the short term, an economy can achieve higher output by making fuller use of existing resources. An increase in aggregate demand should lead to an expansion of aggregate supply.

In the long run, sustained economic growth requires an increase in the economy's productive potential. This comes about from an increase in the active supply of labour; a rise in the stock of capital inputs,; technological improvements and higher factor productivity.

Growth slows down in the final quarter—raising the possibility of a cut in interest rates

Figures from the Office of National Statistics show that national output grew by only 0.3% during the final quarter of 2000, the slowest rate of growth for two years. This took the annual rate of growth of real GDP down to 2.4% and provides firm evidence that the pace of expansion is weakening across all sectors. Service sector production was 0.7% higher in the final three months - but even this represents a softening in the rate of expansion.

Taking the year 2000 as a whole, the final growth rate is estimated to be 3.0% (up from 2.3% in 1999). The service sector (which accounts for over two thirds of total output) expanded by 3.3% last year - but in the final months of the year some sectors were hit. Transport industries were adversely affected by the impact of the fuel crisis in September and rail operators were affected by the aftermath of the Hatfield train crash.

| UK ECONOMY AT A GLANCE | | | | | |
|-----------------------------|-------------------|------|------|------|--------|
| | | 1998 | 1999 | 2000 | Latest |
| Real GDP at market prices | % annual change | 2.6 | 2.2 | 3.0 | 2.1 |
| Household Spending | % annual change | 4.0 | 4.4 | 3.7 | 3.7 |
| Base Interest Rates | Per cent | 6.25 | 5.50 | 6.0 | 6.0 |
| Claimant Count Unemployment | % of labour force | 4.7 | 4.3 | 3.7 | 3.6 |
| Retail Price Inflation | (RPIX—% change) | 2.7 | 2.3 | 2.1 | 2.0 |

Business and Industry Focus

Export Optimism

For the first time in two years, export optimism among UK manufacturing firms has moved into positive territory. The net percentage balance of businesses expecting to see a rise in export orders over the next four months moved from -6 in October to +7 in January 2001

The improvement in export optimism provides some hope that the hard pressed industrial sector is adjusting to the continued strength of sterling against other currencies. Manufacturing firms have experienced a sharp fall in profit margins in recent years. And, over 150,000 jobs were shed last year. But in the last six months, the rate of growth of manufacturing exports has accelerated as British businesses have taken advantage of a recovery in the Euro and the weakness of the pound against the US dollar.

Calls for an early cut in interest rates

Overall, manufacturing confidence remains brittle and the CBI continue their call for an early cut in base interest rates. The net balance of optimists over pessimists expecting an improvement in business conditions rose from -9 in October to -3 in January - still well below the +9 figure at the same time last year.

The CBI conducted the survey between 14 December and 10 January. A total of 984 manufacturers responded, around 60 per cent of replies were received before the surprise 0.5 per cent cut in US interest rates on 3 January. In the intervening three months base rates in the UK remained on hold (at s6 per cent) and the sterling exchange rate index remained broadly stable.

Employment continues to contract

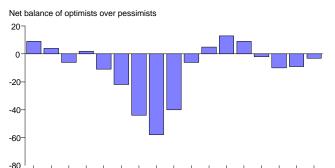
Weak orders and sales were cited by 73% of firms as a factor likely to limit output in the next four months. However this is down by 7% from the previous survey. Skilled labour shortages edged up (from 17% to 18%) but remain well below the peaks seen towards the end of the last economic boom. Manufacturing industry continues to expect further job losses this year. 7 per cent of businesses reported job losses in the past four months and 12% of firms expect to shed some of their workforce as we head into the late spring and summer.

Weak demand hits planned investment

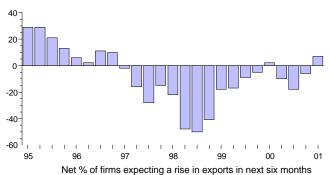
A rebound in the growth of manufacturing output should (in time) provide support for higher levels of capital investment. However planned investment spending remains weak across many manufacturing sectors. Only 36% of firms are citing the need to expand capacity as a reason for authorising new capital spending. In contrast 66% of businesses are going ahead with new investment in a bid to improve efficiency and productivity. And 50% of responses highlight the need for replacement investment as a factor behind new CAPEX projects.

Business confidence remains brittle

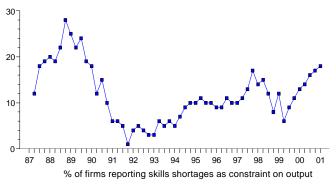
CBI MANUFACTURING BUSINESS CONFIDENCE



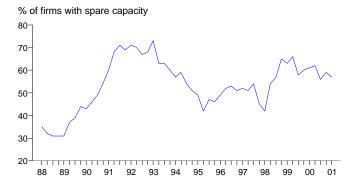
MANUFACTURING EXPORT OPTIMISM TURNS POSITIVI



SKILLS SHORTAGES IN MANUFACTURING



SPARE CAPACITY IN MANUFACTURING INDUSTRY



Social Trends 2001—A Review

TRENDS IN THE DISTRIBUTION OF WEALTH

The real value of net household wealth in the UK increased by 9.6% during 1999 according to data released as part of the annual Social Trends publication. This boost to household wealth was a key factor behind the strength of consumer spending over the last two years. However the distribution of wealth remains very unevenly spread.

Data for 1999 shows that funds accumulated in Pension Funds and Life Assurance policies remained the largest single component of the wealth of the UK household sector. 35% of total assets were held in this form. This type of wealth is illiquid since it cannot always be easily "cashed in" to provide a source of spending power for consumers. The growth in occupational pension funds is a reflection that millions more people are concerned that the basic state pension will, in future years, be insufficient to finance an acceptable standard of living.

Just over one quarter of household wealth was held in the form of residential buildings (less the outstanding value of mortgage loans). The recovery in the housing market gathered pace through the first half of 2000 and when the next set of figures for personal sector wealth are released this time next year, we can expect to see the impact of this housing boom on the total value of household wealth.

The share of wealth taken up by financial investments in securities and shares has remained broadly stable (at 16 per cent) over the last three years. The FTSE 100 index performed poorly during 2000 (finishing the year lower than at the start) but a correction in share values is expected to have less of an effect on UK consumer confidence and spending that a similar fall in equity prices in the United States.

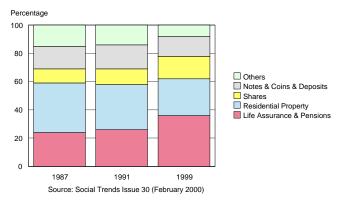
Inequalities persist

As always, the latest data incorporated into Social Trends finds that the distribution of marketable wealth remains highly unequal. In 1998 the most wealthy one per cent of the population owned nearly a quarter of total household wealth. And, over half total wealth was in the hands of the richest 10%

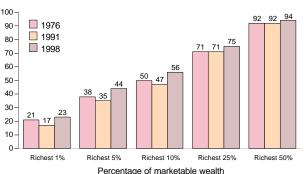
There are powerful forces reinforcing this scale of inequality. People with substantial net wealth are able to save and accumulate more assets during their life cycle. For millions of people in the UK, regular saving, in savings accounts, shares and pension funds is an ambition and a dream rather than a daily fact of life.

Social Trends (Part 1 of 3)

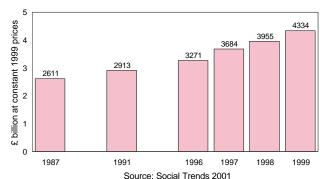
COMPOSITION OF HOUSEHOLD WEALTH IN THE UK



MARKETABLE WEALTH IS UNEVENLY SPREAD



NET WEALTH OF UK HOUSEHOLDS

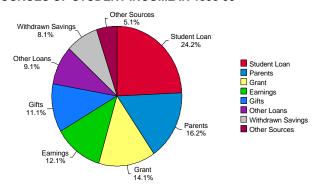


KEY POINTS ON WEALTH

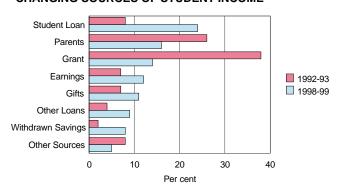
- Half the population share only 6% of wealth
- The share of wealth held in the form of pensions and life assurance schemes has increased
- Rising house prices have boosted wealth levels
- Many forms of wealth are held in illiquid forms that cannot easily be turned into cash

STUDENT FINANCES

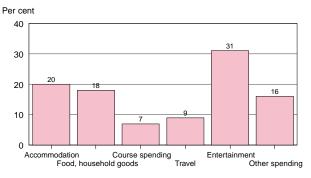
SOURCES OF STUDENT INCOME IN 1998-99



CHANGING SOURCES OF STUDENT INCOME



STUDENT EXPENDITURE IN 1998-99



STUDENT INCOMES AND SPENDING

In 1990-91 the student maintenance grant was gradually replaced with student loans. In 1988-89, 38% of student income came from grant assistance. A decade later that had fallen to just 14%. The share of student income coming from student loans has expanded from 8% in 1992-93 to 24% in 1998-99. The average value of the loan in 1998/99 was £1,891. If other loans (in the form of overdrafts, credit card payments and hire purchase agreements) are added to the total, the share of student spending that is loan financed rose to 33% last year. Little wonder that a recent survey of more than a thousand students in Britain foudn that most expected to leave university more than £7,000 out of pocket.

Between 1995/96 and 1998/99 full-time students' incomes increased in real terms, by around 12%. This reflected increases in borrowings, earnings from employment and withdrawal of savings. Last year 12% of student income came from earnings - the vast majority of which came from part-time work. Nearly two thirds of full-time students worked during the academic year while 82% worked over the summer vacation. Around nine out of ten part-time students worked during the academic year.

The latest figures also highlight a shift in the pattern of full-time students' expenditure. Spending on 'essential' items has fallen in real terms since 1995, with reduced expenditure on accommodation; food, bills and other household goods; course related expenditure; and on children. Expenditure on other items, including non-course related travel, entertainment, clothes and consumer goods, increased by 25% in real terms for those aged under 26 and by 40% for older full-time students. This may have reflected prices of some items rising above inflation.

Rising debt levels increase the risk of financial hardship for thousands of students. The most recent survey found that 10% of both full- and part-time students said that they had thought about dropping out for financial reasons, whilst three in five full-timers and two in five part-timers thought that financial difficulties had negatively affected their academic performance.

WEB SITES FOR STUDENTS

National Union of Students

www.nusonline.co.uk/index.asp

Trouble at Work

www.troubleatwork.org.uk

Department of Education and Employment

www.dfee.gov.uk/hestudents/index.shtml

Tutor2u Economics www.tutor2u.net

Tutor2u Economics is a resource for students and teachers. There are hundreds of pages of revision notes, links and a Discussion Forum. Visit the site and improve your grades

NEXT WEEK'S ECONOMICS BRIEFING

Social Trends: Housing Trends

Measuring the Money Supply

Social Security Spending—Impact and Cost

Weekly Briefing

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